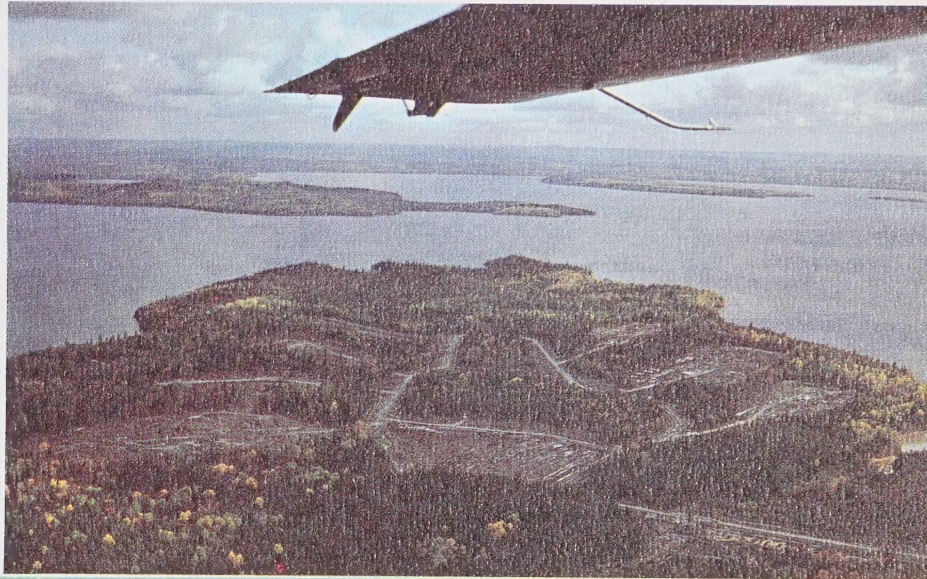


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Corp report file



Northern Telephone Limited

61st annual report / 1965

DIRECTORS

David S. Beatty
 Claude Duhamel
 Rowan T. Hutchinson
 Z. Henry Krupski
 Donald McKelvie
 W. Ralph Ramsay
 George C. Stewart
 Richard A. H. Taylor
 Lorne L. Woods



D. S. BEATTY
 Toronto, Ont.



C. DUHAMEL
 Montreal, Que.



D. McKELVIE
 New Liskeard, Ont.



R. A. H. TAYLOR
 New Liskeard, Ont.



R. T. HUTCHINSON
 New Liskeard, Ont.



Z. HENRY KRUPSKI
 Montreal, Que.



W. R. RAMSAY
 New Liskeard, Ont.



G. C. STEWART
 Toronto, Ont.



L. L. WOODS
 New Liskeard, Ont.

SIXTY - FIRST

ANNUAL REPORT

NORTHERN TELEPHONE LIMITED



Year Ended December 31st, 1965

*Vous pouvez obtenir une version
française de ce rapport en écrivant:
au Secrétaire,
Northern Telephone Limited
New Liskeard, Ontario*

COVER: MODERN TOWNSITE — A look at the Lebel-sur-Quévillon townsite from the air shows how the natural beauty of the peninsula it occupies is being retained. Individual dwellings and apartment buildings are being laid out in nine clusters, resembling islands among the trees. Centrally situated are the buildings intended to serve the entire community — a shopping centre, recreation building and schools for up to 800 children. The new town already is linked with the world to the south by road, rail and a winter airstrip.

TRANSFER AGENTS

CROWN TRUST COMPANY,
Toronto, Montreal and Winnipeg

TRUSTEES

CANADA PERMANENT TRUST COMPANY,
Toronto and Montreal

AUDITORS

KEMP & KEMP
Chartered Accountants
New Liskeard, Ontario

BANKERS

CANADIAN IMPERIAL BANK OF COMMERCE
New Liskeard, Ontario

OFFICERS AND DEPARTMENT HEADS

DONALD McKELVIE
President and General Manager



RICHARD A. H. TAYLOR
Vice-President

COLIN A. STEVENS
Secretary-Treasurer

NORMAN E. CURRIE
*Asst. General Manager
Operations*

ROY B. BARNARD
Commercial Manager

ALPHONSE PICHE
*Manager
Quebec Operations*

J. ROSAIRE LEVESQUE
*Manager
Quebec Subsidiaries*

RONALD GIBBINS
Chief Engineer

MURRAY COOPER
Asst. Sec'ty.-Treasurer



THE DIRECTORS' REPORT TO THE SHAREHOLDERS



Your Directors submit herewith the 61st Annual Report to Shareholders for the calendar year 1965. The year under review has seen continuing progress in growth, modernization and in the acquisition of further territories. Gross revenues continue to show substantial gains, with an increase of seventeen percent over the previous year. In spite of increased operating costs, coupled with increases in debenture interest, depreciation, and income taxes, net profit showed an increase of seven and one half percent over the previous year. Earnings per share amounted to 46.4 cents, based on the increased number of common shares outstanding. Dividends totaling twenty-four cents were paid during the year on the common stock.

Your Company did not undertake any capital financing during 1965. Funds for capital expenditures were derived from bank loans and the use of internal funds. Your Directors are giving immediate attention to new financing and have decided to issue three million dollars in second preference convertible shares. This will have the effect of increasing the shareholders' equity position allowing for further debt financing when that becomes necessary.

You will note that once again our fixed assets have substantially increased. This is attributable to large capital budget spending during the year. In 1966 we are again faced with con-

tinuing large capital expenditures. As the North grows at a rapid pace so do the service requirements in your company. It is necessary for us to substantially increase our toll facilities, exchange cabling and dial equipment facilities, and to continue to modernize our plant and provide for normal growth. In 1965 we added 3,850 telephones to the system, an increase of five percent, giving the system a total of 81,348 connected telephone stations.

Among the various items of work accomplished in 1965, were the completion of a toll cable project between Chibougamau and Val d'Or in Quebec and putting-into service of a complex radio system to serve the Quebec Provincial Police. Some exchanges were converted to dial operation, the largest being at Kirkland Lake, Ontario. Further dial conversions are planned for 1966, the larger being at Ansonville, Ontario and Malartic, Quebec. The system is now 89 percent dial operated.

As reported previously in our Quarterly Reports, some very substantial mining and pulp & paper mill projects are underway within our territories. Domtar is erecting a seventy million dollar pulp and paper complex at Lac Quevillon, Quebec, the kraft plant of Abitibi Power and Paper Company at Smooth Rock Falls has been enlarged, and increased capacity is being planned for the paper mill owned by Spruce Falls Power and Paper Company at Kapuskasing. In mining many properties are preparing for substantial production in such widely scattered locations as Joutel, Quebec, Bruce Lake, Timmins and Atikokan in Ontario. The search for base metals continues at a rapid rate and this will undoubtedly bring more producers into being. In this connection we have substantially expanded our radio telephone systems to cater to the needs of this and other industries in outlying areas.

In last year's Annual Report we made mention of the need for new traffic agreements with the Ontario Northland Transportation Commission. Negotiations are still not complete but we hope to be able to announce settlement of these in the near future. The new contracts will enhance our revenues to some extent.

Many factors combine to make it difficult for your Company to obtain a rate of return comparable to that which prevails in the industry. This is due, at least in part, to the fact that for many years we have been charging rates lower than are generally in effect throughout Ontario and Quebec. Another contributing factor is labor costs. We have recently reached agreement with the Union that represents our employees covering a two year contract. Substantial wage increases were granted although it should be pointed out that part of these wage increases can be attributed to new labor legislation enacted by the federal government. To at least partially offset these factors your Directors are giving consideration to making an application for rate revisions to the appropriate authorities.

The communications industry becomes more complex every year both in the matter of sophisticated equipment and in the services available to subscribers. Like many other telephone systems, your Company has contracted to obtain Bell System practices and up-to-date information — to keep abreast of the rapidly changing technology. Our staff and employees have therefore available to them many training courses and information of all types.

We wish to record our appreciation to management, staff and employees for their loyalty and continuing efforts towards the success of your Company.

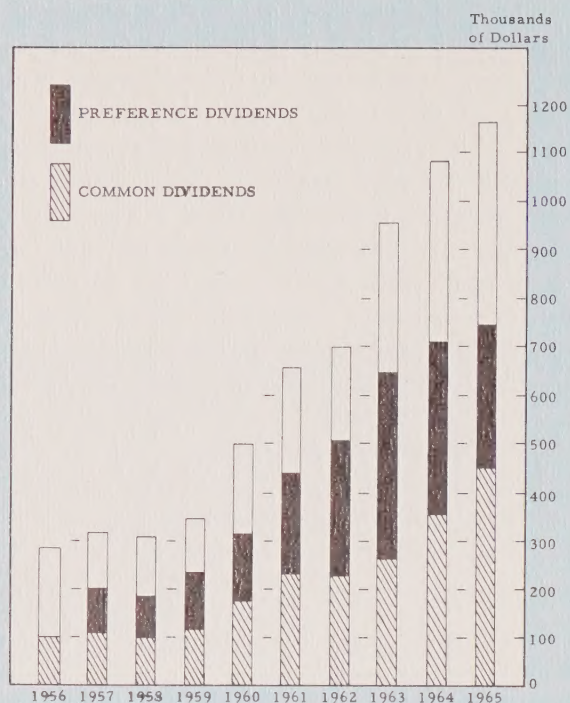
Your Directors view with optimism the growing economy of the areas in which we serve and look forward to another successful year in 1966.

Respectfully submitted on behalf of the Board.

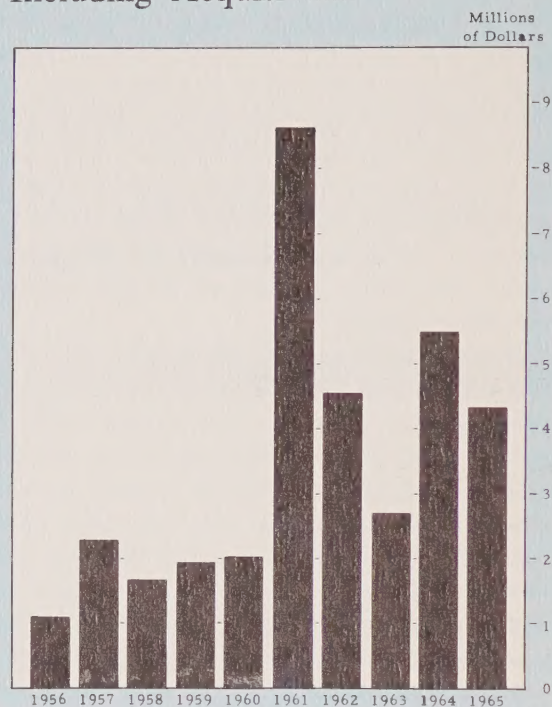
D. McKELVIE,
President.

New Liskeard, Ontario.
March 8th, 1966.

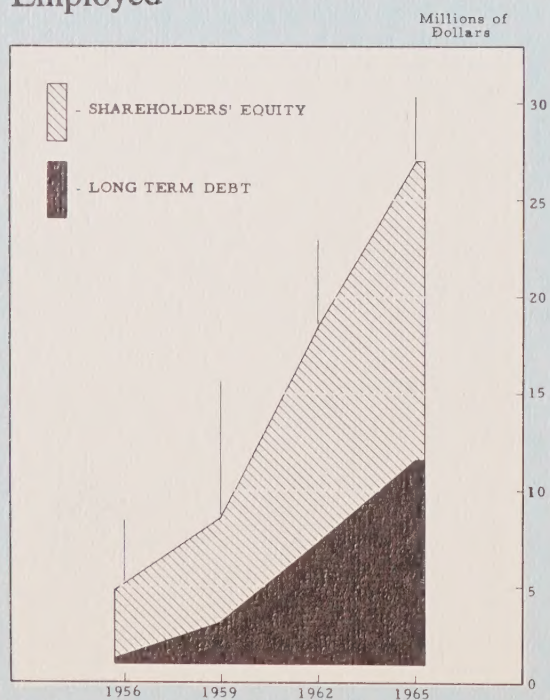
Net Income and Dividends Paid



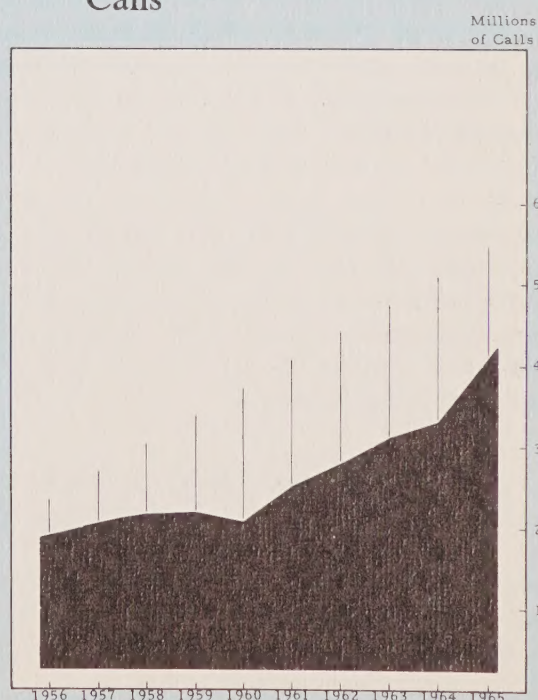
Additions to Plant Including Acquisitions



Capital Employed



Long Distance Calls



Highlights of the Report

FINANCIAL RESULTS

	1965	1964
Total Revenue	\$ 7,887,337 ✓	\$ 6,746,203 ✓
Operating and General Expenses	3,888,866	3,280,524
Debenture Interest and Discount	662,721	572,301
Depreciation	1,452,623	1,344,735
Income Taxes	722,948	469,936
Net Income	1,160,179 ✓	1,078,707 ✓
Dividends - Preference	293,480	355,626
Dividends - Common	448,836	351,885
Earnings per common share	46.4 ✓	50.5 ✓

BALANCE SHEET

Gross Fixed Assets	\$39,113,004	\$35,623,298
Net additions to fixed assets	3,489,706	5,504,247
Accumulated depreciation	10,213,012	9,360,017
Long term debt	11,595,000	11,806,500
Shareholders' Equity	15,319,698	14,805,608

ADDITIONAL STATISTICS

Telephones in service	81,348	77,498
Percent dial operated	89.2	84.4
Number of long distance calls	4,113,808	3,306,631
Number of Central Offices	109	103
Number of employees at December 31st	748	750
Number of shareholders	5,514	5,234

ASSETS

CURRENT	1965	1964
Cash	\$ —	\$ 348,282
Temporary cash investments	—	535,000
Accounts receivable - for service	1,135,833	834,743
Accounts receivable - other	378,707	318,958
Materials and supplies on hand - valued at cost	673,122	672,960
Prepaid expenses	114,626	86,700
Total Current Assets	<u>2,302,288</u>	<u>2,796,643</u>
INVESTMENT IN OTHER COMPANIES (at cost)	<u>8,875</u>	<u>8,975</u>
FIXED (See Note 1)		
Land and buildings, telephone plant and equipment, poles, wires, cable, underground conduit, telephone equipment on customers' premises, motor vehicles, office furniture, and other equipment including construction in progress	39,113,004	35,623,298
Deduct: Accumulated depreciation	<u>10,213,012</u>	<u>9,360,017</u>
	<u>28,899,992</u>	<u>26,263,281</u>
OTHER:		
Unamortized discount and expense on Long-Term Debt . . .	273,771	292,021
Incorporation and franchises	<u>101,622</u>	<u>101,623</u>
	<u>375,393</u>	<u>393,644</u>
TOTAL ASSETS	<u>\$31,586,548</u>	<u>\$29,462,543</u>

Approved on behalf of the Board:

D. McKELVIE, *Director*

R. T. HUTCHINSON, *Director*

LIABILITIES

CURRENT	1965	1964
Bank loan - unsecured	\$ 2,350,000	\$ 300,000
Bank overdraft - unsecured	51,408	—
Accounts payable and accrued expense	1,182,575	1,757,683
Dividends payable	112,413	111,030
Income taxes	355,440	170,883
Debentures due in 1966, less purchased to date	85,500	98,000
Note payable, due in 1966, re purchase of subsidiary	89,000	—
	<u>4,226,336</u>	<u>2,437,596</u>
LONG-TERM DEBT: (See Note 2)	<u>11,595,000</u>	<u>11,806,500</u>
DEFERRED CREDIT - re income tax, subsidiary company	<u>163,232</u>	<u>163,232</u>
MINORITY INTEREST - Abitibi Telephone Inc.	<u>282,282</u>	<u>249,607</u>
SHAREHOLDERS' EQUITY		
CAPITAL STOCK		
Preference shares outstanding (See Note 3)	\$ 5,344,460	\$ 5,444,060
Common shares - without par value (See Notes 4, 5 and 9)		
Authorized - 5,000,000 shares		
Issued and Fully Paid - 1,873,559	<u>7,153,353</u>	<u>6,970,395</u>
	<u>12,497,813</u>	<u>12,414,455</u>
RETAINED EARNINGS	<u>2,821,885</u>	<u>2,391,153</u>
TOTAL SHAREHOLDERS' EQUITY	<u>15,319,698</u>	<u>14,805,608</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$31,586,548</u>	<u>\$29,462,543</u>

NORTHERN TELEPHONE LIMITED

CONSOLIDATED INCOME STATEMENT

(including subsidiary companies)

For the Years Ending 31st December, 1965 and 1964

	1965	1964
REVENUE		
Local service	\$ 3,993,970	\$ 3,593,394
Toll service	3,012,167	2,321,212
Miscellaneous and other non-operating revenue	881,200	831,597
	<u>7,887,337</u>	<u>6,746,203</u>
EXPENSES		
Cost of operating telephone property, including operators' wages and expense of handling messages, salaries and expenses of officers and other operating expenses (including director's fees \$23,000)	1,976,006	1,848,536
Current Maintenance —		
Cost of inspection, repairs and re-arrangements required to keep the telephone property in good operating condition	1,701,893	1,260,682
Municipal and provincial taxes	210,967	171,306
	<u>3,888,866</u>	<u>3,280,524</u>
Net income before charges for depreciation, debenture interest and discount, and income taxes	\$ 3,998,471	\$ 3,465,679
Depreciation	1,452,623	1,344,735
Debenture interest	644,472	556,685
Debenture discount and commission amortized	18,249	15,616
	<u>2,115,344</u>	<u>1,917,036</u>
Net Income before Income Taxes	1,883,127	1,548,643
Deduct: Provision for Income Taxes	722,948	469,936
NET INCOME	<u>\$ 1,160,179</u>	<u>\$ 1,078,707</u>

46.4¢
a share

50.5¢

NORTHERN TELEPHONE LIMITED

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the Years Ending 31st December, 1965 and 1964

	1965	1964
BALANCE, 1st JANUARY	\$ 2,332,056	\$ 1,847,807
<i>Add:</i> Surplus arising from sale of assets, and profit on bond redemptions		
- prior years	59,097	—
- current year	12,238	—
Income tax refunds - prior years - re capitalization of portion of interest and overhead	631	128,053
Net Income for year	1,160,179	1,078,707
	<u>3,564,201</u>	<u>3,054,567</u>
<i>Deduct:</i>		
Commission on sale of common shares	—	15,000
Dividends - Preference	293,480	355,626
Common	448,836	351,885
	<u>742,316</u>	<u>722,511</u>
BALANCE, 31st DECEMBER	<u>\$ 2,821,885</u>	<u>\$ 2,332,056</u>

Consolidated Statement of Source and Application of Funds

For the Year Ending 31st December, 1965

SOURCE OF FUNDS

Net income for year		\$ 1,160,179
<i>Add:</i> Non cash charges to income for depreciation	\$ 1,452,623	
Termination settlement - contract	203,498	
	<u>1,656,121</u>	
<i>Deduct:</i> Accumulated depreciation on plant retired	803,126	
		852,995
Amortization of debenture discount		18,250
Proceeds from sale of capital stock		83,358
Portion of profit attributable to minority interests in subsidiary company		32,675
Miscellaneous		12,969
		<u>\$ 2,160,426</u>

APPLICATION OF FUNDS

Gross plant additions	\$ 4,339,157	
<i>Less:</i> Plant retired	849,452	
		\$ 3,489,705
Repayment of long term debt		211,500
Dividends		742,316
		4,443,521
Decrease in Working Capital		2,283,095
		<u>\$ 2,160,426</u>

NORTHERN TELEPHONE LIMITED

NOTES TO FINANCIAL STATEMENTS

For the Year Ended 31st December, 1965

NOTE 1. Included in the cost of fixed assets is a total of \$3,050,616 representing the excess of purchase price of subsidiary companies over book value. This has been deemed by the Board of Directors as applicable to cost of fixed assets of the companies purchased.

NOTE 2. Details of Long Term Debt as at 31st December, 1965:

(after deducting sinking fund requirements due in 1966 and shown in current liabilities)

4½ % Series A, due 1971	.	.	.	.	.	.	.	.	.	\$ 425,000
4 % Series B, due 1975	.	.	.	.	.	.	.	.	.	890,000
5¼ % Series C, due 1978	.	.	.	.	.	.	.	.	.	1,610,000
6 % Series D, due 1981	.	.	.	.	.	.	.	.	.	1,900,000
5½ % Series E, due 1981	.	.	.	.	.	.	.	.	.	1,900,000
5¾ % Series F, due 1983	.	.	.	.	.	.	.	.	.	2,910,000
5⅝ % Series G, due 1984	.	.	.	.	.	.	.	.	.	1,960,000
										<u>\$11,595,000</u>

NOTE 3. Details of preference shares as at 31st December, 1965:

Authorized - with a par value of \$20.00 each issuable in series.

First Preference - 500,000 shares	.	.	.	.	.	.	.	.	.	\$10,000,000
Second Preference - 250,000 shares	.	.	.	.	.	.	.	.	.	\$ 5,000,000
Deduct: Redeemed 82,777 shares	.	.	.	.	.	.	.	.	.	1,655,540
167,223 shares	.	.	.	.	.	.	.	.	.	<u>3,344,460</u>
										<u>\$13,344,460</u>

Issued - FIRST PREFERENCE

75,000 5½ % cumulative redeemable preference shares - Series "A"	.	.	.	.	.	.	.	.	.	\$ 1,500,000
50,000 5½ % cumulative redeemable preference shares - Series "B"	.	.	.	.	.	.	.	.	.	1,000,000
100,000 5½ % cumulative redeemable preference shares - Series "C"	.	.	.	.	.	.	.	.	.	2,000,000
25,000 5½ % cumulative redeemable preference shares - Series "D"	.	.	.	.	.	.	.	.	.	500,000

SECOND PREFERENCE

17,223 5% cumulative, redeemable convertible preference shares - Series "A"	.	.	.	.	.	.	.	.	.	<u>344,460</u>
										<u>\$ 5,344,460</u>

NOTE 4. 50,000 common shares of the capital stock of the Company have been reserved for an Employee Stock Purchase Plan. As at 31st December, 1965, 22,500 shares had been allotted and issued under the plan, leaving a balance of 27,500 shares still reserved.

NOTE 5. The following is a summary of the common shares issued during 1965:

	Number of Shares	Consideration
Balance, 1st January, 1965	1,854,434	\$ 6,970,395
Issued		
For cash	9,315	83,358
On conversion of second preference shares to common	9,810	99,600
	<u>1,873,559</u>	<u>\$ 7,153,353</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6. INCOME TAXES

Because of the Company's practice of claiming for tax purposes Capital Cost Allowances which exceed the amount of depreciation charged to income in the accounts, income taxes have been reduced by the following amounts:

	Year Ended December 31, 1965	Accumulated Amount December 31, 1965
Income tax reductions with respect to the excess of Capital Cost Allowance claimed for tax purposes over recorded depreciation	\$71,540	\$ 1,120,385

NOTE 7. Interest and overhead charges totalling \$360,754 have been added to fixed assets in the Company's accounts during the year but have been claimed as expenses for income tax purposes.

NOTE 8. Depreciation has been charged in the accounts at rates designed to spread this loss uniformly over the life of the property.

Debenture discount and commission expense incurred on the issue of debentures is being amortized over the life of the debentures.

NOTE 9. In December, 1965 an agreement was reached with all the minority shareholders of Abitibi Telephone Inc. whereby they agreed to exchange their shares in Abitibi Telephone Inc. for common shares in Northern Telephone Limited on a share for share basis. The number of shares involved was 43,206.

This transaction was subject to the approval of various regulatory bodies. As at February 22nd, 1966 approval has been received from all bodies with the exception of the Ontario Securities Commission. This transaction therefore has not been reflected in the financial statements of 1965.

Consideration with respect to Abitibi Telephone Inc. has been made on the basis of the shares actually owned by Northern Telephone Limited at 31st December, 1965. This basis is consistent with that used in prior years.

AUDITORS' REPORT

TO THE SHAREHOLDERS OF
NORTHERN TELEPHONE LIMITED:

We have examined the consolidated balance sheet of NORTHERN TELEPHONE LIMITED as at 31st December, 1965 and the consolidated income statement and statement of retained earnings for the year ended on that date. Our examination of the financial statements of Northern Telephone Limited and the subsidiary of which we are auditors, included a general view of the accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries.

In our opinion the accompanying consolidated balance sheet and consolidated income statement and statement of retained earnings and statement of source and application of funds when read in conjunction with the notes appended thereto, present fairly on a consolidated basis the financial position of the companies as at 31st December, 1965, and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

New Liskeard, Ontario
24th February, 1966

KEMP & KEMP,
Chartered Accountants



STATISTICS

(Including All

	1965	1964	1963	1962
NUMBER OF TELEPHONES	81,348	77,498	71,681	67,066
Business	25,367	24,115	22,039	20,610
Residence	55,981	53,383	49,642	46,456
Percentage Residence of Total	68.8	68.8	69.3	69.3
Percentage Dial of Total	89.2	84.4	82.8	78.0
NUMBER OF CENTRAL OFFICES	109	103	91	84
MILES OF POLE LINES	3,825	3,752	3,259	3,050
MILES OF WIRE	235,834	215,023	200,648	188,808
LONG DISTANCE CALLS	4,113,808	3,306,631	3,119,205	2,790,736
Company Lines	1,927,245	1,552,586	1,460,572	1,407,856
Connecting Companies' Lines	2,186,563	1,754,045	1,658,633	1,382,880
TOTAL INVESTMENT PLANT & EQUIP.	\$39,113,004	\$35,623,298	\$30,119,051	\$27,392,600
Plant & Equip. Less Dep.	\$28,899,992	\$26,263,281	\$22,253,697	\$20,714,165
Gross Revenues	\$ 7,887,337	\$ 6,746,203	\$ 6,364,850	\$ 5,322,034
NUMBER OF EMPLOYEES				
Men	503	393	313	319
Women	245	357	336	317
Total Employees	748	750	649	636
TOTAL PAYROLL				
(Operations)	\$ 2,411,478	\$ 2,088,215	\$ 1,894,873	\$ 1,602,358
NUMBER OF SHAREHOLDERS				
In Canada	5,228	4,934	4,604	4,156
Elsewhere	286	300	403	398
Total Shareholders	5,514	5,234	5,007	4,554

1956 - 1965



(diaries)

1961	1960	1959	1958	1957	1956
63,625	54,457	50,375	48,817	46,711	43,124
19,386	16,190	14,791	14,016	12,619	12,434
44,239	38,267	35,584	34,801	34,092	30,690
69.5	70.3	70.6	71.3	72.9	71.2
77	70.7	65.9	42.9	30.7	26.9
74	61	48	48	46	34
2,852	2,160	2,076	2,014	1,927	1,831
160,722	129,854	113,462	98,980	90,679	82,277
2,527,267	2,073,152	2,196,978	2,165,654	2,060,056	1,892,155
1,288,112	1,030,591	1,227,046	1,213,335	1,000,002	865,133
1,239,155	1,042,561	969,932	952,319	1,060,054	1,027,022
\$22,827,337	\$14,181,328	\$12,133,732	\$10,137,503	\$ 8,460,757	\$ 6,166,039
\$17,094,881	\$ 9,969,919	\$ 8,575,482	\$ 7,094,246	\$ 5,857,657	\$ 3,937,815
\$ 4,505,493	\$ 3,674,805	\$ 3,177,328	\$ 2,865,935	\$ 2,716,307	\$ 2,324,820
282	194	203	208	184	163
315	274	324	327	364	326
597	468	527	535	548	489
\$ 1,416,262	\$ 1,286,450	\$ 1,281,712	\$ 1,212,305	\$ 1,137,618	\$ 1,036,985
3,881	2,665	2,652	1,731	1,570	1,344
346	191	64	59	26	26
4,227	2,856	2,716	1,790	1,596	1,370

INDUSTRY PUSHES NORTH

LEBEL-SUR-QUEVILLON, Que. — The new Domtar Limited bleached kraft pulp mill at Lebel-Sur-Quévillon, Que., will help open up a large section of the Abitibi district of northwestern Quebec when it starts producing late in 1966.

The mammoth mill, nearly a third of a mile long, is scheduled to be ready to start turning out top quality pulp by August. It has a rated capacity of 750 tons a day but is expected to produce 850 tons when broken in.

The mill itself will employ more than 300 men, and another 1,200 will be needed to keep it supplied with the nearly 500,000 cords of wood it will need every year.

Woodlands workers will have access to timber limits extending from Lebel-sur-Quévillon, 50 miles north of Senneterre, almost to James Bay.

The townsite, planned for an eventual population of 5,000 and already incorporated as a municipality, is situated on a peninsula jutting into Lac Quévillon.

Site clearance began in the fall of 1964 and the project, when completed, is expected to cost about \$71,000,000.

BACK COVER: NEW MILL RISES — This aerial view of the Domtar pulp mill at Lebel-sur-Quévillon shows the plant as it was at the end of 1965, with the buildings virtually all closed in against the winter. Tradesmen working inside had installed nearly one-third of the mill equipment by the end of the year. The construction force numbered more than 1,200.



